

The Aluminium Powder Company Limited

Report and Financial Statements

31 December 2011

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COMPANIES HOUSE

The Aluminium Powder Company Limited

Directors

I Resende
D J E Beare
K Lawson
J Hamer

Secretary

J Hamer

Registered Office

C/O London & Scandinavian Metallurgical Co Limited
Fullerton Road
Rotherham
South Yorkshire S60 1DL

Auditors

Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds LS11 5QR

Bankers

Lloyds TSB Bank Plc
PO Box 72
Bailey Drive
Gillingham ME8 0LS

Solicitors

DLA Piper UK LLP
1 St Paul's Place
Sheffield S1 2JX

Directors' report

Registered No 00961050

The directors present their report and the audited financial statements of the company for the year ended 31 December 2011. The directors who held office during the year are listed on page 1.

Results and dividends

The company income statement for the year is set out on page 7. No dividend was paid during the year (2010 – \$nil) and the directors do not recommend the payment of a final dividend (2010 – \$nil). Capital expenditure was \$989,000 (2010 – \$940,000).

Principal activity and review of the business

The company continued to manufacture aluminium powder and aluminium powder alloys. The company's key financial performance indicators for the year were as follows:

	2011 \$000	2010 \$000
Revenue	57,635	43,979
Profit before taxation	833	3,246
Total equity	18,008	17,337
EBITDA	1,475	3,829
Return on capital employed	13.3%	67.4%

Return on capital employed is calculated in accordance with the ultimate parent company's guidelines and uses a two point average for capital employed.

The company's turnover has risen by 31% during the year and reflects increased volumes. Profit for the year was however impacted by a reduction in demand in certain markets during the last quarter of 2011, as well as customers reducing inventory levels for their financial year ends.

Future developments

The company continues to review a number of projects which the directors believe will lead to the development of new products which are forecasted to continue to improve the profitability of the company.

Principal risks and uncertainties

The management of the business is subject to a number of risks. The key business risks affecting the company are considered to relate to overseas competitors, currency exchange and metal price volatility.

Competition

The metals industry is highly competitive on a worldwide basis. Competition is primarily based on price, quality and timely delivery. In recent years, price competition has been strong as a result of excess capacity in certain products. New entrants may also increase competition in the powder industry, which could adversely affect the company.

Currency exchange and metal price volatility

The company's functional currency is US Dollars. A significant proportion of the company's purchases and sales are in US Dollars. However, the company has exposures to purchases made in Sterling and sales made in Euros. The company has developed policies to manage effectively its currency exposures and minimise the risks of currency fluctuations.

Directors' report

Currency exchange and metal price volatility (continued)

The company has exposures to changes in the price of aluminium, which is publicly traded on the London Metal Exchange. The company monitors and manages its exposures to aluminium price risk and has a hedging policy with the aim of minimising the risks of price fluctuations. The foreign currency and metal hedging process is performed by the company's parent company, London & Scandinavian Metallurgical Co Limited.

Customer risk

The company is exposed to the risk of customers defaulting on trade debtors or not performing on their contracts. The downturn in the economy over recent years compounds this risk as once sound companies may fail quickly because of existing leverage or lack of financing options. To mitigate this risk, the company has set credit limits on its customers, which it closely monitors and acts accordingly should circumstances arise.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation by its operations. In addition, the company's parent company has banking facilities in place, in the event further cash flow is required.

Review of going concern

The company's business activities, together with the factors likely to affect its future development and financial position have been set out in the Directors' report. In addition, the Directors' report also sets out the principal risks and uncertainties. A going concern assessment has been made by the directors with reference to the latest financial performance of the company, 2012 and 2013 forecasts and available cash liquidity. The company's actual performance in 2012 is slightly below planned levels, however current orders are improving and the market outlook is becoming more positive.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Company supplier payment policy

The company has a policy to agree terms of payment with its suppliers when establishing the terms of each transaction to ensure that suppliers are made aware and abide by the terms of payment.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office as auditors to the company.

By order of the Board



J Hamer
Secretary

30 May 2012

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union ('IFRSs')

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the company and the financial performance and cash flows of the company for that period. In preparing those financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance,
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- make judgements and estimates that are reasonable and prudent

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and they are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report

to the members of The Aluminium Powder Company Limited

We have audited the financial statements of The Aluminium Powder Company Limited for the year ended 31 December 2011 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report

to the members of The Aluminium Powder Company Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Peter Buckler (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Leeds

15th June 2012

Income statement

for the year ended 31 December 2011

		2011	2010
	Notes	\$000	\$000
Continuing operations			
Revenue	3	57,635	43,979
Cost of sales		(55,363)	(39,405)
Gross profit		2,272	4,574
Distribution expenses		(228)	(309)
Administrative expenses		(1,340)	(1,281)
Other operating income	8	107	269
Operating profit	4	811	3,253
Finance income	9	218	328
Finance expenses	9	(196)	(335)
Profit before taxation		833	3,246
Income tax expense	10	(162)	(169)
Profit for the year attributable to equity shareholders		671	3,077

Statement of comprehensive income

for the year ended 31 December 2011

There was no comprehensive income other than the profit of \$671,000 for the year ended 31 December 2011 (2010 – profit of \$3,077,000)

Statement of financial position

as at 31 December 2011

	Notes	2011 \$000	2010 \$000
Assets			
Non-current assets			
Property, plant and equipment	11	3,877	3,551
Investments	12	426	426
Other non-current assets	13	225	231
		<u>4,528</u>	<u>4,208</u>
Current assets			
Inventories	14	5,191	5,041
Trade and other receivables	15	15,850	17,505
Cash and cash equivalents	16	1,231	918
		<u>22,272</u>	<u>23,464</u>
Total assets		<u>26,800</u>	<u>27,672</u>
Equity			
Issued share capital	21	837	837
Retained earnings	22	17,171	16,500
Total equity attributable to equity shareholders		<u>18,008</u>	<u>17,337</u>
Non-current liabilities			
Government grants	18	116	—
Deferred tax liabilities	10	401	386
		<u>517</u>	<u>386</u>
Current liabilities			
Trade and other payables	17	6,573	8,409
Government grants	18	15	—
Current tax payable	10	1,687	1,540
		<u>8,275</u>	<u>9,949</u>
Total liabilities		<u>8,792</u>	<u>10,335</u>
Total equity and liabilities		<u>26,800</u>	<u>27,672</u>

These financial statements were approved and authorised by the board of directors on 30 May 2012 and were signed on its behalf by



J Hamer
Director

Statement of changes in equity

for the year ended 31 December 2011

	<i>Share capital \$000</i>	<i>Retained earnings \$000</i>	<i>Total equity \$000</i>
At 1 January 2010	837	13,423	14,260
Profit for the year	–	3,077	3,077
At 31 December 2010	<u>837</u>	<u>16,500</u>	<u>17,337</u>
At 1 January 2011	837	16,500	17,337
Profit for the year	–	671	671
At 31 December 2011	<u>837</u>	<u>17,171</u>	<u>18,008</u>

Statement of cash flows

for the year ended 31 December 2011

	Note	2011 \$000	2010 \$000
Operating activities			
Profit for the year		671	3,077
Adjustments to reconcile profit to net cash flows			
Depreciation	11	663	576
Finance expense on bank overdrafts	9	–	1
Income tax expense	10	163	169
Government grant income	18	(2)	–
Pension expense	25	6	33
Profit from operations before working capital movements		<u>1,501</u>	<u>3,856</u>
Working capital movements			
Increase in inventories		(150)	(1,512)
Decrease / (increase) in trade and other receivables		1,655	(5,214)
(Decrease) / increase in trade payables, provisions and other liabilities		<u>(1,837)</u>	<u>4,233</u>
Profit from operations after working capital movements		<u>1,169</u>	<u>1,363</u>
Pension contributions	25	–	(43)
Interest paid		–	(1)
Income tax paid		–	(25)
Net cash flows from operating activities		<u>1,169</u>	<u>1,294</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangibles	11	(989)	(940)
Government grants received	18	133	–
Net cash flows used in investing activities		<u>(856)</u>	<u>(940)</u>
Net increase in cash and cash equivalents		313	354
Cash and cash equivalents at 1 January	16	918	564
Cash and cash equivalents at 31 December		<u>1,231</u>	<u>918</u>

Notes to the financial statements

at 31 December 2011

1. Corporate information

The financial statements of The Aluminium Powder Company Limited for the year ended 31 December 2011 were authorised for issue by the board of directors on 30 May 2012 and the statement of financial position was signed on the board's behalf by Jonathan Hamer

The company is a private limited company incorporated and domiciled in England and Wales. The address of the company's registered office is C/O London & Scandinavian Metallurgical Co Limited, Fullerton Road, Rotherham S60 1DL

The principal activity of the company is the manufacture of aluminium powder and aluminium powder alloys

Group financial statements

The company is a wholly owned subsidiary of London & Scandinavian Metallurgical Co Limited, a company incorporated in England and Wales, and is included in the group financial statements of that company which are publicly available from Companies House, Cardiff. As such the company has availed itself of the exemption from preparing group financial statements under Section 400 of the Companies Act 2006

2. Accounting policies

Basis of preparation

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union ('IFRS') as they apply to the financial statements of the company for the year ended 31 December 2011, and applied in accordance with the Companies Act 2006

Basis of measurement

The financial statements have been prepared under the historical cost convention

A going concern assessment has been made by the directors with reference to the latest financial performance of the company. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected

Foreign currency

These financial statements are presented in US Dollars, which is the company's functional and presentation currency and all amounts are rounded to the nearest thousand dollars (\$000) except where otherwise indicated. The determination of functional currency is based on appropriate economic and management indicators

Transactions denominated in foreign currencies are initially translated to dollars at the rates ruling at the dates of the transactions. Profits and losses on settlements during the year are recognised in the income statement

At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated to dollars at the rate of exchange ruling at the statement of financial position date and the resultant exchange differences are recognised in the income statement. The exchange rate as of 31 December 2011 was USD \$1 = £0.6435

Notes to the financial statements

at 31 December 2011

2. Accounting policies (continued)

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, investments in subsidiaries and associates and trade and other payables

Derivative financial instruments

The company does not have any derivative financial instruments as at 31 December 2011

Trade and other receivables

Trade and other receivables are recorded at the invoiced amount. The company provides an allowance for impairment for known and estimated potential losses arising from sales to customers based on a periodic review. When the company is satisfied that no recovery of the amount is possible then the amount is written off against the trade receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of 90 days or less.

Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Trade and other payables

Deferred income as well as trade and other payables are accounted for at cost.

Investments

Investments held as non-current assets are stated at cost unless there is a permanent diminution in value in which case they are stated at the net realisable value.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when

- the rights to receive cash flows from the asset have expired,
- the company retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement, or
- the company retains the right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the asset.

When the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to pay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Notes to the financial statements

at 31 December 2011

2. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged in the income statement on a straight-line basis over the estimated lives of each part of an item of property, plant and equipment. Land and construction in progress are not depreciated.

If there is a permanent diminution in value, the item is written down to its estimated recoverable amount.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The annual rates generally used are:

Freehold property	–	4% straight line
Plant, machinery, fixtures and fittings	–	10% straight line
Motor vehicles	–	25% straight line
Laboratory equipment	–	20% straight line

Leases

Rentals under operating leases are charged to the income statement on a straight line basis over the lease term. There were no lease arrangements classified as finance leases as of 31 December 2011 (2010 – none).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct material and labour costs together with the relevant overheads on the basis of normal activity levels. Allowance is made for obsolete, slow-moving or defective items where appropriate.

Inventories held under consignment arrangements are reviewed regularly in order to assess whether the substance of the arrangements is such that those inventories constitute assets which should be reflected in the statement of financial position.

Impairment excluding inventories and deferred tax assets

The carrying amounts of the company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Notes to the financial statements

at 31 December 2011

2. Accounting policies (continued)

Employee benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plan

The company participates in the LSM 2006 Pension Plan ('2006 Pension Plan') which has a defined contribution section and a funded defined benefit arrangement. The defined benefit scheme was closed to new entrants and existing members on 31 May 2006. The company's obligation in respect of the defined pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service to the date of the scheme closure. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted to arrive at the net pension obligation or asset. The discount rate used is the yield at the statement of financial position date on AA credit rated bonds that have maturity dates approximating the terms of the company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. The net obligation or asset recognised in the statement of financial position is the present value of the defined benefit obligation less the fair value of the plan assets.

The income statement charge is allocated between an operating charge and net finance expense or income. The operating charge reflects the service cost which is spread systematically over the working lives of the employees. The net finance charge reflects the unwinding of the discount applied to the liabilities of the plan, offset by the expected return on the assets of the plan, based on conditions prevailing at the start of the year.

The corridor approach is used for actuarial gains and losses that arise in calculating the company's pension obligations. To the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of the plan assets that portion is recognised in the statement of comprehensive income. Otherwise the actuarial gain or loss is not recognised.

Actuarial valuations are carried out by an independent actuary as determined by the Trustees at intervals of not more than three years, to determine the rates of contribution payable. The pension cost is determined on the advice of the company's actuary, having regard to the results of these Trustee valuations. In any intervening years, the actuaries review the continuing appropriateness of the contributions rates.

Provisions

A provision is recognised in the statement of financial position when

- the company has a present legal or constructive obligation as a result of a past event that can be reliably measured, and
- it is probable that an outflow of economic benefits will be required to settle the obligation.

Revenues

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of rebates, discounts, VAT and other sales tax. Revenue from product sales is recognised when the significant risks and rewards of ownership have been transferred to the buyer and in accordance with terms of shipment, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably.

Notes to the financial statements

at 31 December 2011

2. Accounting policies (continued)

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when incurred

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the company intends, has the technical ability and has sufficient resources to complete development, future economic benefits are probable and if the company can measure reliably the expenditure attributable to the intangible asset during its development. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses

Government grants

Government grants are only recognised when there is reasonable assurance that the company will comply with the conditions for their receipt and that the grant will be received. Capital based grant income is initially deferred and released to the income statement over the remaining useful economic life of the related asset. Revenue based grants are recognised in the income statement in the same period in which the relevant expenditure is incurred

Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it is earned, using the effective interest method

Finance expenses comprise interest expense on borrowings. All borrowings costs are recognised in the income statement in the year in which they are incurred, except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Such costs are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably

Income tax expense

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position dates and any adjustment to tax payable in respect of previous periods

Deferred taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences

- The initial recognition of goodwill,
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- Differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date

Notes to the financial statements

at 31 December 2011

2. Accounting policies (continued)

Income tax expense (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date

Deferred tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised

New and amended standards

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011

IAS 24 Related Party Disclosures (amendment) effective 1 January 2011

IAS 32 Financial Instruments Presentation (amendment) effective 1 February 2010

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011

Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the company.

IAS 32 Financial Instruments Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is

Notes to the financial statements

at 31 December 2011

2. Accounting policies (continued)

New and amended standards (continued)

applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the company because the company does not have these type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment has had no effect on the financial position or performance of the company.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the company.

Standards and interpretations issued but not yet applied

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing of standards and interpretations issued are those that the company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The company is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Notes to the financial statements

at 31 December 2011

2. Accounting policies (continued)

Standards and interpretations issued but not yet applied (continued)

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Effective dates

The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the company prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to there having been endorsement for use in the EU via the EU endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the company's discretion to early adopt standards.

3. Revenue

	2011 \$000	2010 \$000
United Kingdom	23,356	19,108
Rest of Europe	29,095	20,039
Rest of the World	5,184	4,832
	<u>57,635</u>	<u>43,979</u>

4. Operating profit

This is stated after charging

	2011 \$000	2010 \$000
Depreciation	663	576
Government grants	(2)	-
Research and development expensed as incurred	<u>37</u>	<u>51</u>

5. Auditors' remuneration

	2011 \$000	2010 \$000
Audit of these financial statements	26	34
Other services	<u>-</u>	<u>-</u>

Notes to the financial statements

at 31 December 2011

6. Directors' remuneration

	2011 \$000	2010 \$000
Directors' remuneration	200	201
Company contributions paid to defined contribution scheme	12	11

There is one director accruing benefits under a defined contribution scheme (2010 – one)

The remuneration of I Resende, D J E Beare and J Hamer were paid through London & Scandinavian Metallurgical Co Limited and their remuneration is disclosed in those financial statements

7. Employee information

The aggregate payroll costs of the persons employed by the company were as follows

	2011 \$000	2010 \$000
Wages and salaries	3,236	3,110
Social security costs	292	260
Pension costs - defined contribution scheme	200	196
Pension costs - defined benefit scheme	6	33
	<u>3,734</u>	<u>3,599</u>

The average monthly number of persons employed by the company (including paid directors) during the year, analysed by category, was as follows

	2011 Number	2010 Number
Production	58	51
Sales and administration	2	3
	<u>60</u>	<u>54</u>

8. Other operating income

	2011 \$000	2010 \$000
Dividend from fixed asset investment	107	269

Notes to the financial statements

at 31 December 2011

9. Finance income and expense

Recognised in the income statement

	2011 \$000	2010 \$000
Finance income		
Expected return on pension scheme assets	218	328
Finance expenses		
Interest payable on bank overdrafts	–	(1)
Interest on pension scheme liabilities	(196)	(334)
	<u>(196)</u>	<u>(335)</u>

10. Income tax expense

	2011 \$000	2010 \$000
Current tax.		
Current period	200	840
Adjustment for prior periods	(53)	(564)
Total current tax	<u>147</u>	<u>276</u>
Deferred tax		
Current period	(3)	(27)
Adjustment for prior periods and rate changes	18	(80)
Total deferred tax	<u>15</u>	<u>(107)</u>
Total income tax expense	<u>162</u>	<u>169</u>

Notes to the financial statements

at 31 December 2011

10. Income tax expense (continued)

Reconciliation of the total tax charge

The tax expense in the income statement for the year differs from the standard rate of corporation tax in the UK at 26.49% (2010 – 28%). The differences are reconciled below

	2011 \$000	2010 \$000
Profit before income tax	833	3,246
Income tax using the standard rate of corporation tax in the UK of 26.49% (2010 – 28%)	221	909
<i>Effects of</i>		
Non-taxable income	(28)	(75)
Expenses not deductible for tax purposes	4	1
Adjustments to tax in respect of prior periods		
– current tax	(53)	(564)
– deferred tax	50	(65)
Group relief claimed not paid	–	(22)
Rate adjustment for deferred tax	(32)	(15)
Total income tax expenses (effective rate 20%, 2010 – 5%)	162	169

The following table shows the corporation tax payable at the end of the financial year

	2011 \$000	2010 \$000
Corporation tax payable	1,226	1,079
Group relief payable	461	461
Total	1,687	1,540

Deferred tax assets and liabilities

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as tax loss and tax credit carry forwards. Deferred tax assets are recognised to the extent it is probable that the temporary differences, unused tax losses and unused tax credits will be realised. The realisation of deferred tax assets is reviewed each reporting period and includes the consideration of historical operating results, projected future taxable income exclusive of reversing temporary differences and carry-forwards, the scheduled reversal of deferred tax liabilities and potential tax planning strategies.

	\$000
<i>Deferred taxation</i>	
At 1 January 2011	386
Charge to income statement	15
At 31 December 2011	401

Notes to the financial statements

at 31 December 2011

10. Income tax expense (continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities have been recognised in respect of the following items

	Statement of financial position				Income statement	
	Assets		Liabilities			
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Machinery	–	–	151	115	36	(89)
Property – buildings	–	–	180	209	(29)	(18)
Pension asset	–	–	56	62	(6)	–
Other taxable temporary differences	–	–	14	–	14	–
Net tax assets and liabilities	–	–	401	386		
Deferred tax provision/ (benefit)					15	(107)

Deferred tax on machinery and property relates to tax allowances in excess of depreciation

Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets and liabilities

Effect of changes of tax rate

In addition to the changes in rates of corporation tax disclosed, a number of further changes to the UK corporation tax system were announced in the March 2011 and March 2012 UK Budget statements. Reductions to the main rate are proposed to reduce the rate by a further 1% to 24% from 1 April 2012, and a further 1% per annum to 22% from 1 April 2014.

These proposed reductions of the main rate of corporation tax are expected to be enacted separately each year. The overall effect of the further changes from 25% to 22%, if applied to the deferred tax balance at the statement of financial position date, would be to further reduce the deferred tax liability by an additional \$48,149 (recognised equalling 2012, 2013 and 2014).

Notes to the financial statements

at 31 December 2011

11. Property, plant and equipment

	<i>Land and buildings</i> \$000	<i>Plant, machinery and motor vehicles</i> \$000	<i>Fixtures and fittings</i> \$000	<i>Total</i> \$000
Cost				
At 1 January 2010	3,684	12,102	378	16,164
Additions	–	940	–	940
Disposals	–	(86)	–	(86)
At 31 December 2010	3,684	12,956	378	17,018
Additions	25	964	–	989
At 31 December 2011	3,709	13,920	378	18,007
Depreciation				
At 1 January 2010	2,326	10,273	378	12,977
Charge for the year	60	516	–	576
Eliminated on disposals	–	(86)	–	(86)
At 31 December 2010	2,386	10,703	378	13,467
Charge for the year	61	602	–	663
At 31 December 2011	2,447	11,305	378	14,130
Net book value				
At 1 January 2010	1,358	1,829	–	3,187
At 31 December 2010	1,298	2,253	–	3,551
At 31 December 2011	1,262	2,615	–	3,877

The company did not have any borrowing costs to capitalise during the year ended 31 December 2011 (2010 \$ - nil)

Securities

At 31 December 2011, the company's land and buildings and plant and machinery are being pledged against financing loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N V, the company's ultimate parent company Please refer to note 24

Notes to the financial statements

at 31 December 2011

12. Investments

\$000

Cost and net book value

At 1 January 2010, 31 December 2010 and 31 December 2011

426

The company has the following investments in subsidiaries

<i>Company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Ownership</i>
Benda – Lutz – Alpoco Sp z o o	Poland	Manufacturer of aluminium powder	51%

13. Other non-current assets

2011 2010
\$000 \$000

Pension prepayment

225 231

For details regarding the underlying pension scheme and the basis of calculation of the pension prepayment, please refer to note 25

14. Inventories

2011 2010
\$000 \$000

Raw materials

1,656 1,598

Finished goods

3,535 3,443

5,191 5,041

Cost of raw materials and changes in finished goods recognised as cost of sales in the year amounted to \$43,487,000 (2010 – \$30,066,000)

The write down of inventories to net realisable value amounted to \$251,000 (2010 – \$34,000) and the provision released for slow moving inventories amounted to \$90,000 (2010 – \$31,000 charge) The release in the slow moving inventory provision was the result of inventories either being used or sold

Securities

At 31 December 2011, the company's inventories are being pledged against financing loans and revolving credit facility taken out by AMG Advanced Metallurgical Group N V , the company's ultimate parent company Please refer to note 24

Notes to the financial statements

at 31 December 2011

15. Trade and other receivables

	2011 \$000	2010 \$000
Trade receivables	5,246	3,566
Receivables from affiliates	10,251	13,827
Prepayments	31	69
Prepaid inventory	296	–
Other receivables	26	43
Total trade and receivables	<u>15,850</u>	<u>17,505</u>

The carrying amount of trade receivables approximates their fair value. Trade receivables are non-interest bearing and are generally on 30 to 90 days terms.

All amounts within trade and other receivables are expected to be recovered within 12 months.

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

	Gross 2011 \$000	Impairment 2011 \$000	Gross 2010 \$000	Impairment 2010 \$000
Current – not yet due	4,405	–	2,838	–
0 – 30 days	839	–	723	–
More than 30 days	2	–	5	–
	<u>5,246</u>	<u>–</u>	<u>3,566</u>	<u>–</u>

16. Cash and cash equivalents

	2011 \$000	2010 \$000
Cash at bank and in hand	<u>1,231</u>	<u>918</u>

At 31 December 2011, the company did not have borrowing facilities (2010 – nil). Funding, if required, is provided by the company's parent company, London & Scandinavian Metallurgical Co Limited.

Notes to the financial statements

at 31 December 2011

17. Trade and other payables

	2011 \$000	2010 \$000
Trade payables	1,890	1,120
Payables to affiliates	3,930	6,537
Other creditors	753	752
	<u>6,573</u>	<u>8,409</u>

The company has exposure to payables denominated in currencies other than the functional currency. Where significant exposure exists, the company's parent company enters into appropriate foreign exchange contracts on a group level.

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms.

For related party transactions refer to note 26.

18. Government grants

	2011 \$000	2010 \$000
Non-current	116	–
Current	15	–
	<u>131</u>	<u>–</u>

During the year the company received \$133,000 from the Welsh Assembly Government in relation to a capital project. The grant is being deferred over the expected remaining useful life of the asset of 9 years.

Amounts totalling \$2,000 (2010: \$nil) were credited to the income statement during the year and included in cost of sales.

19. Obligations under operating leases

At 31 December 2011 the company was committed to making payments totalling \$38,000 (2010: \$38,000) during the next year in respect of operating leases of land and buildings which expire within one year.

20. Financial instruments

Fair values

Trade and other receivables

The directors believe that the fair value of trade and other receivables approximates to their carrying value. The present value of future cash flows are not discounted as the effect is not material.

Trade and other payables

The directors believe that the fair value of trade and other payables approximates to their carrying value. The present value of future cash flows are not discounted as the effect is not material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated at its carrying value where the cash is repayable on demand.

Notes to the financial statements

at 31 December 2011

20. Financial instruments (continued)

Fair values (continued)

Set out below is a comparison by category of the carrying amounts and fair values of all of the Company's financial instruments that are presented in the financial statements

		Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
	Note	\$000	\$000	\$000	\$000
Current financial assets					
Trade and other receivables	15	15,850	15,850	17,505	17,505
Cash and cash equivalents	16	1,231	1,231	918	918
Total financial assets		<u>17,081</u>	<u>17,081</u>	<u>18,423</u>	<u>18,423</u>
Current liabilities					
Trade and other payables	17	6,573	6,573	8,409	8,409
Total financial liabilities		<u>6,573</u>	<u>6,573</u>	<u>8,409</u>	<u>8,409</u>

21. Issued share capital

	2011 \$000	2010 \$000
<i>Called up, allotted and fully paid</i>		
436,037 ordinary shares of £1 each	<u>837</u>	<u>837</u>

The holders of the ordinary shares are entitled to one vote per share in any circumstances. Each share is entitled *pari passu* to dividend payments or any other distribution.

22. Capital and reserves

	Share capital \$000	Retained earnings \$000	Total equity \$000
At 1 January 2010	837	13,423	14,260
Total recognised income and expense	–	3,077	3,077
At 31 December 2010	<u>837</u>	<u>16,500</u>	<u>17,337</u>
At 1 January 2011	837	16,500	17,337
Total recognised income and expense	–	671	671
At 31 December 2011	<u>837</u>	<u>17,171</u>	<u>18,008</u>

23. Capital commitments

There were \$174,000 of capital commitments at 31 December 2011 (2010 – \$69,000)

Notes to the financial statements

at 31 December 2011

24. Contingencies

The company is party to AMG Advanced Metallurgical Group N V 's term and revolving credit facilities and has given fixed and floating charges over all its assets and liabilities to participate in those group banking facilities

The company's assets are secured against the ultimate parent company's banking facilities totalling up to \$278 4m in term loans and revolving credit facilities. At 31 December 2011, there was \$197 6m outstanding in term loans and revolving credit facility (2010 \$159 5m)

Full details of the terms relating to the facility can be found in the group financial statements of AMG Advanced Metallurgical Group N V, copies of which are available from the address listed in note 29

In the opinion of the directors no loss is expected to arise as a result of these matters

25. Employments benefits

Defined contribution plan

The total expense as of 31 December 2011, recognised in the income statement of \$200,000 (2010 – \$196,000) represents contributions paid and payable to these plans

Defined benefits plans

The company offers retirement benefit plans to its employees through The LSM 2006 Pension Plan

The LSM 2006 Pension Plan defined benefit section ('2006 Pension Plan') was closed to new employees and to further service for current employees during 2006. As the remaining service for active members is zero, scheme assets are measured at the bid market value at the statement of financial position date. The liabilities of the pension plan measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. Estimated future cash flows are discounted at the current rate of return on high quality corporate bonds of an equivalent term to the liability. Actuarial gains and losses in excess of the 10% corridor are recognised in full in the year in which they occur in the statement of comprehensive income

The scheme assets and liabilities of the 2006 Pension Plan are initially valued in full in accordance with IAS19. The assets and liabilities are then split between London & Scandinavian Metallurgical Co Limited and The Aluminium Powder Company Limited. The liability of each member, as calculated at the last full actuarial valuation, is used to calculate the overall proportion of each company's liability (member data taken at September 2011 was used to identify the employees of each company). The relevant percentage is applied to all items from the latest IAS19 calculations (excluding company contributions) and the appropriate assets, liabilities, income and expense are recognised in the relevant company

The level of company contributions to be paid is set by the trustees and company at the time of each triennial valuation

IAS 19 requires that the discount rate used be determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The discount rate has been assessed by reference to the duration of the pension plan liabilities and by reference to the published iBoxx index of Sterling corporate bonds of duration greater than 15 years and investment grade AA and above. Allowance is made where the constituent bonds in the published index have been re-rated or new issues made

The rate of inflation influences the assumption for salary and pension increase. This has been assessed by reference to yields on long-term fixed and index-linked Government bonds and has regard to Bank of England published inflationary expectations

The last full actuarial valuation of the 2006 Pension Plan was carried out by a qualified independent actuary at 31 December 2009 and updated on an approximate basis to 31 December 2011

Notes to the financial statements

at 31 December 2011

25. Employment benefits (continued)

Defined benefits plans (continued)

The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the reporting date. The expected rate of return on equities have been determined by setting an appropriate risk premium above government bond yields, having regard to market conditions at the reporting date. The expected long-term return on cash is equal to bank base rates at the reporting date.

The expected long-term rates of return on plan assets per annum are as follows

	2011 %	2010 %
Equities / other	8.40	8.50
Bonds	5.40	5.50
Government bonds	4.20	4.15
Cash	2.00	2.00
Overall for pension plan	6.09	6.30

The underlying assets and liabilities are denominated in Sterling, as the functional currency is US Dollars, these are translated at the closing exchange rate. The exchange gains or losses are included within the fair value of plan assets at the end of the reporting period.

The actual return on plan assets for the year ending 31 December 2011 was \$325,000 (2010: \$1,918,000).

The assumptions used to measure the net pension obligation of the pension plan are as follows

	2011 %	2010 %
Inflation	3.0	3.5
Salary increases	N/A	N/A
Rate used to discount liabilities	4.7	5.4
Allowances for pension in payment increases of the Retail Price Index ('RPI') or 5% p a , if less	2.9	3.4
Allowances for revaluation of deferred pensions of Consumer Price Index ('CPI') or 5% p a , if less	2.3	N/A
Allowances for revaluation of deferred pensions of RPI or 5% p a if less	3.0	3.5
Allowances for commutation of pension for cash at retirement	—	—

Assumptions regarding future mortality are based on published statistics and mortality tables, but also take into account the actual membership experience and specific demographics of the workforce.

The average life expectancy assumptions, after retirement at 60 years age, are as follows

Male retiring in 2011	24.6
Female retiring in 2011	27.4
Male retiring in 2031	26.8
Female retiring in 2031	29.4

Contributions of \$nil have been made by the employer over the period for the 2006 Pension Plan (2010 – \$43,000). The best estimate of contributions to be paid to the plan for the year ended 31 December 2012 is \$nil.

Notes to the financial statements

at 31 December 2011

25. Employment benefits (continued)

Defined benefits plans (continued)

Amounts recognised in respect of the pension plan

	2011 \$000	2010 \$000
Fair value of plan assets	3,741	3,674
Present value of funded obligations	(4,003)	(3,712)
Deficit in plan	(262)	(38)
Unrecognised actuarial losses	487	269
Asset recognised in statement of financial position	<u>225</u>	<u>231</u>

Changes in the amount recognised in respect of the pension plan are as follows

	2011 \$000	2010 \$000
Opening asset recognised in statement of financial position	231	221
Expense recognised in income statement	(6)	(33)
Employer contribution	–	43
Closing assets recognised in statement of financial position	<u>225</u>	<u>231</u>

Plan assets consist of the following

	2011 \$000	2010 \$000
Equities	–	1,025
Bonds	2,364	2,232
Cash	7	14
Government bonds	450	403
Other	920	–
Total plan assets	<u>3,741</u>	<u>3,674</u>

Other assets comprise well diversified investment funds operated on a pooled basis.

Changes in the present value of defined benefit obligations

	2011 \$000	2010 \$000
Opening defined benefit obligation	3,712	6,000
Current service costs	28	27
Interest cost	196	334
Actuarial losses / (gains)	280	(2,284)
Exchange rate movements	(19)	(164)
Benefits paid, death in service insurance premiums and expenses	(194)	(201)
Closing defined benefit obligation	<u>4,003</u>	<u>3,712</u>

Notes to the financial statements

at 31 December 2011

25. Employment benefits (continued)

Defined benefits plans (continued)

Changes in fair value of plan assets are as follows

	2011	2010
	\$000	\$000
Opening fair value of plan assets	3,674	5,284
Expected return on plan assets	218	328
Actuarial gains / (losses)	107	(1,553)
Exchange rate movements	(64)	(227)
Contributions by employer	—	43
Benefits paid, death in service insurance premiums and expenses	(194)	(201)
Closing value of plan assets	<u>3,741</u>	<u>3,674</u>

Expense recognised in the income statement

	2011	2010
	\$000	\$000
Current service costs	28	27
Total operating charge	28	27
Interest on defined benefit obligation	196	334
Expected return on plan assets	(218)	(328)
Net finance (income) / expense	(22)	6
Expense recognised in the income statement	<u>6</u>	<u>33</u>

The defined benefit pension expense is recognised in the following line items in the income statement

	2011	2010
	\$000	\$000
Administrative expense	28	27
Finance expenses	196	334
Finance income	(218)	(328)
Total expense recognised in the income statement	<u>6</u>	<u>33</u>

Notes to the financial statements

at 31 December 2011

25. Employment benefits (continued)

Defined benefits plans (continued)

Amounts for the current and previous two periods are as follows

	2011 \$000	2010 \$000	2009 \$000
Fair values of plan assets	3,741	3,674	5,284
Present value of defined benefit obligation	(4,003)	(3,712)	(6,000)
Deficit in plan	(262)	(38)	(716)
Experience adjustment on defined benefit obligation	43	(1,780)	868
Experience adjustment on plan assets	(3)	2,649	(593)
Effects of changes in the demographic and financial assumptions underlying the present value of defined benefit obligation	(258)	(201)	(1,240)

26. Related party transactions

Transactions with entities within a group

According to IAS 24 all subsidiaries and associates within the AMG Advanced Metallurgical Group N V are related parties to the company and transactions with those companies have to be disclosed in the company's separate financial statements. The related party transactions concerning sales and purchases of goods, recharges for accounting, IT and purchasing services for the year and the balances outstanding at 31 December 2011 are summarised below

	Sales		Debtors	
	31 December	31 December	31 December	31 December
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Immediate parent company	17,092	14,665	10,251	13,827
	Purchases		Creditors	
	31 December	31 December	31 December	31 December
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Immediate parent company	–	–	3,930	6,537
– Purchases	202	329	–	–
– Recharged raw material purchases	42,059	29,960	–	–
– Recharged services	556	539	–	–
– Recharged salary costs	3,734	3,599	–	–
Subsidiaries	1,224	947	117	205

Notes to the financial statements

at 31 December 2011

26. Related party transactions (continued)

Transactions with entities within a group (continued)

The parent company, London & Scandinavian Metallurgical Co Limited, purchases raw materials on behalf of the company. Accounting, information technology and purchasing services are recharged to the company. The payroll is also operated by the parent company and the relevant salary costs are recharged through to the company.

All the above transactions are undertaken on normal commercial terms.

Transactions with key management personnel

The directors are considered to be the only key management personnel. The remuneration of the directors is disclosed in note 6.

27. Capital management, financial risk management objectives and policies

Capital management

The primary objective of the company is to maintain strong capital ratios in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it, in light of economic conditions.

The company's principal financial liabilities are comprised of payables to affiliates and trade payables. The company has various financial assets such as trade and other receivables, receivables from affiliates and cash, which arise directly from its operations.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The main risks arising from the company's financial instruments are credit, liquidity, foreign currency, and commodity.

Credit risk

Customer risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers.

The amounts presented on the statement of financial position are net of allowances for doubtful receivables estimated by the company's management, based on prior experience and the current economic climate.

The company trades only with creditworthy third parties. It is the company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which ensure their creditworthiness. In addition, receivable balances are monitored on an ongoing basis to ensure that the company's exposure to impairment losses is not significant. Approximately a third of the company's revenue is sold to its immediate parent company London & Scandinavian Metallurgical Co Limited. There are no other customers which account for more than 10% of the company's revenue.

The company's maximum exposure is the carrying amount as discussed in note 15.

The company's Treasury function monitors the location of cash and cash equivalents and monitors the strength of those banks.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Notes to the financial statements

at 31 December 2011

27. Capital management, financial risk management objectives and policies (continued)

Liquidity risk (continued)

The company aims to mitigate liquidity risk by managing cash generation by its operations. In addition, the company's parent company has banking facilities in place, in the event further cash flow is required.

It is company policy to agree payment terms with its suppliers. Payment is made when it can be confirmed that the goods or services have been provided in accordance with the relevant contractual conditions.

The table below summarises the maturity profile of the company's financial liabilities at 31 December 2011 based on contractual undiscounted payments.

31 December 2011	Carrying amount \$000	Contractual cash flows \$000	< 3 months \$000	3-12 months \$000	2013 \$000	2014 \$000	2015 \$000	>2015 \$000
Trade and other payables	6,573	6,573	6,573	—	—	—	—	—

31 December 2010

Trade and other payables	8,409	8,409	8,409	—	—	—	—	—
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Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the company's income or the value of its holdings of financial instruments.

Short term receivables and payables are not exposed to interest rate risk. The company does not have other financial assets and liabilities that are exposed to interest rate risk.

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the company's income or the value of its holdings of financial instruments. The company's functional currency is US Dollars. A significant proportion of the company's purchases and sales are in US Dollars. However, the company has exposure to purchases and sales made in Sterling and sales made in Euros.

The company's parent company has developed policies to effectively manage this exposure and minimise the risks of currency fluctuations on a group level. The parent company uses forward currency contracts to achieve this. The company itself does not use these financial instruments on a company only level and thus is not exposed to currency price risks through financial instruments. As such there would be no effect on profit before tax if there were a change in the exchange rates of the primary currencies the company is uses.

Commodity price risk

Commodity price risk is the risk that certain raw materials prices will increase and negatively impact the gross margins and operating results of the company. The company is exposed to volatility in the prices of aluminium, publicly traded on the London Metal Exchange.

The company's parent company has developed policies to effectively manage the company's commodity exposures and minimise the risks of commodity price fluctuations on a group level and uses forward contracts. The company itself does not use these financial instruments on a company only level and thus is not exposed to commodity price risks through financial instruments. Commodity price risk is considered to be a usual business risk for the company.

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28. Accounting estimates and judgements

Provision for bad debts

The company has a policy of providing for debts which are overdue by 60 days or more. It is management's judgement that where this is the case the whole debt relating to the customer is provided for even if not yet due, as the risk of default is considered high. No bad debt provision was recorded at either 31 December 2011 or 31 December 2010.

Inventory provisions

The company has a policy of making a provision against slow moving inventories. Any items over one year old are written down to the raw material cost of the product.

Small development samples are written off in the year of production.

Management consider this the best estimate to minimise the impact to the company of slow moving stocks.

The company has a policy of making provisions to value the inventory at the lower of cost and net realisable basis. Where market conditions exist such that there is an indication products may require writing down to net realisable value, the products are reviewed on a product by product basis with the average inventory value and the net realisable value calculated from the lowest valued sales contracts and the relevant provision recorded. The total inventory provision recorded at 31 December 2011 was \$379,000 (2010: \$218,000).

Defined benefit obligations

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions are reviewed at each reporting date. Due to the long-term nature of these plans and the complexity of the valuations, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are given in note 25.

29. Ultimate parent undertaking and parent undertaking of larger group

The immediate parent undertaking is London & Scandinavian Metallurgical Co Limited, a company registered in England and Wales, and is the smallest group in which the results of the company are consolidated. Copies of the immediate parent undertaking's group financial statements may be obtained from Companies House, Crown Way, Mandy, Cardiff, CF4 3UZ.

The largest group in which the results of the company are consolidated, and the controlling party, is AMG Advanced Metallurgical Group N.V. whose principal address is WTC Amsterdam, Toren C, 13th Floor, Strawinskylaan 1343, 1077 XX Amsterdam. Copies of the financial statements of AMG Advanced Metallurgical Group N.V. can be obtained from the principal address.